SUPREME COURT, U. S.
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IN THE

Supreme Court of the United States

OCTOBER TERM, 1973

No. 73-816

KELSEY-HAYES COMPANY, *Petitioner*

v.

THE DUNLOP COMPANY, LIMITED, *Respondent*

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

MEMORANDUM OF RESPONDENT

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MEMORANDUM OF RESPONDENT

OPINIONS BELOW

The opinions of the District Court and Court of Appeals are reprinted in Appendices B and C of the petition. The decision of the Court of Appeals is reported at 484 F.2d 407.

JURISDICTION

The jurisdictional requirements are properly set forth in the petition. Respondent further requests that its co-pending petition for a writ of certiorari be considered together with the instant petition.

QUESTIONS PRESENTED

1. May an alleged infringer of United States patents (owned by a non-resident alien corporation) recover damages from the patentee for an alleged violation of Section 1 of the Sherman Act, on the ground that the patentee entered into exclusive licenses under the patentee's know-how and foreign counterparts of the United States patents with foreign companies limited to the licensees' respective countries, without establishing by any evidence either the effect of those agreements on any foreign or domestic commerce of the United States or that the territorial exclusivity was other than a reasonable restraint ancillary to the principal contracts?

2. May an alleged infringer of United States patents owned by a non-resident alien corporation recover damages from the patentee for an alleged violation of Section 2 of the Sherman Act on the grounds that:

A. The patentee entered into exclusive licenses under the patentee's know-how and foreign counterparts of the United States patents with foreign companies limited to the licensees' respective countries, even if the infringer fails to prove by any evidence:

(1) the existence of a relevant market to which the patentee's practices related;

(2) what, if any, attempts were made by the patentee to compel its licensees to adhere to any restrictive practices; or

(3) the effect on any foreign or domestic commerce of the United States of the agreements concluded between non-resident aliens relating to their foreign activities;

B. The patentee obtained United States patents based on incomplete disclosures although the corresponding foreign patents were granted after an examination for novelty by the competent foreign patent office and even if the infringer failed to prove by competent evidence that the patentee's United States patents were obtained with less disclosure than is required by applicable U.S. law; or

C. The patentee attempted enforcement of its U.S. patents despite the fact that evidence claimed to be "invalidating" was discovered prior to the filing of the complaint, although the invalidation of the patent based on such evidence depended upon the application of a novel and erroneous principle of patent law urged upon the courts below in the context of inflammatory and irrelevant arguments about the need to protect a local U.S. industry from a foreign inventor?

3. Whether an alleged infringer of United States patents owned by a non-resident alien corporation may avoid liability for infringement to the patentee on the grounds that the patentee has misused his United States patents by concluding agreements with foreign licensees under foreign counterpart patents limited to the licensees' foreign countries, in the absence of any evidence that the United States patents in suit were involved in any such foreign licensing activity?

STATUTE INVOLVED

The pertinent provisions of the Sherman Act, 15 U.S.C. §§ 1, 2 and 15, are reproduced in petitioner's Appendix A.

STATEMENT OF THE CASE

This is a patent case concerning disc brakes particularly for automotive vehicles. The patentee is Dunlop, Ltd., (Dunlop), an English company. Prior

to the introduction of disc brakes, the so-called arcuate shoe or drum brake was almost universally installed by the automobile industry throughout the world. However, successive applications of a shoe brake generate and then accumulate heat, rendering the brake subject to "fade," making it ineffective. In 1949, the Jaguar Motor Company requested Dunlop to provide a brake for a racing car that would avoid the fading problem of the shoe brake. In racing cars, the problem is even more acute than in ordinary passenger vehicles. In response, Dunlop's engineers invented the opposed cylinder fixed caliper disc brake that was embodied in a British patent and a counterpart U.S. patent, No. 2,790,516. Although many previous efforts had been made to develop a brake superior to the shoe or drum brake, none was successful. A disc brake with sliding calipers designed in 1949 by an American engineer by the name of Hawley was installed on Crosley automobiles, but could not be kept consistently reliable in ordinary vehicle use. Experiments with fixed caliper disc braking devices had also been initiated by Hawley and made available to The Goodyear Company in the United States in 1944. But these were incomplete and were finally abandoned without public disclosure.

The success of the Dunlop brakes on the Jaguar racing cars prompted their rapid adoption for standard passenger vehicles produced by Jaguar, Mercedes-Benz, Aston-Martin, Bristol, Austin-Healey, Vanguard, Rover and other European auto manufacturers. License agreements under Dunlop's foreign patents were then concluded with companies in Germany, France, Japan, Australia, Spain and the United States.

In this country, an exclusive license agreement was concluded between Dunlop and the Bendix Corporation as of September 1, 1956. However, no serious effort was made by Bendix to manufacture brakes of this type. In 1961 the General Manager of Dunlop's Brake Division addressed the Society of Automotive Engineers in Detroit, at which time he discussed automotive disc brakes. Employees of petitioner, Kelsey-Hayes Company, heard that speech. Petitioner is a supplier of brakes to, among others, Ford and Chrysler. Petitioner's employees contacted Dunlop and requested license rights under Dunlop's U.S. patents and know-how. When Bendix repeatedly refused to grant Kelsey a sublicense under the Dunlop patents, Kelsey sought and obtained Dunlop's assistance to secure such a license.

An internal memorandum of petitioner in March of 1963 included the significant observation:

> "This plan [of collaborating with Dunlop] in my opinion is the most economical and shortest route to put ourselves in a position to present to the U.S. auto manufacturers a complete disc brake, front and rear. If we go it alone starting from scratch, there will be a long period of development and testing and many patents in our road."

A sublicense agreement with Bendix was finally concluded in September 1963. Throughout this period, extensive assistance was given Kelsey by the Dunlop engineering and management staff in the design and installation of Dunlop brakes to make them suitable for American automobiles. The Kelsey-Hayes fixed caliper disc brake which Dunlop claims infringes its patents was first produced in late 1962.

A Dunlop-designed and manufactured opposed cylinder fixed caliper disc brake was installed on the 1962 Avanti Studebaker, making the latter the first standard passenger automobile produced in this country equipped with such brakes. The rest of the automotive industry then began to make the switch from the shoe brake to the opposed cylinder fixed caliper disc brake and petitioner became a significant supplier of such brakes. Seventy percent of all U.S. automotive vehicles produced today are equipped with disc brakes (of course with many improvements developed since Dunlop's pioneering work in 1951 demonstrated that disc brakes were technically viable).

One of Kelsey's principal customers was the Ford Motor Company. It welcomed the disc brakes produced by Kelsey and advertised them extensively. However, it also advised Kelsey that Ford was unwilling to have Kelsey include in its price for such brakes any royalty to Dunlop. Kelsey then terminated its license under the Dunlop patents and this suit followed.

Dunlop alleged infringement of four United States patents. Kelsey defended on various grounds. Insofar as pertinent to its present petition, Kelsey claimed that Dunlop's *foreign* licensing practices constituted a misuse of Dunlop's *U.S.* patents. Further it made the now-traditional argument that at least one of the patents in suit had been obtained by fraud on the Patent Office. Further, it argued that the attempted enforcement of one of the patents despite evidence that The Goodyear Company had engaged in some experimental work with Hawley's disc brake devices constituted a knowing violation of the antitrust laws. Finally, also now-usual counterclaims for treble

damages under the Sherman Act were filed. These counterclaims were based on the theory that Dunlop's foreign licensing arrangements and its efforts to enforce the counterpart U.S. patents against Kelsey constituted *per se* restraints of trade or attempts to monopolize. In support of these contentions, Kelsey introduced no evidence whatever of the relevant market in which Dunlop's alleged restrictive practices took place or what, if any, effect any of these practices had or even could have had on U.S. foreign or domestic commerce.

The District Court held three of the Dunlop patents invalid and not infringed and the fourth valid but not infringed. This decision rendered moot Kelsey's misuse defense. The Court also dismissed for lack of evidence the antitrust counterclaims filed by Kelsey. Petitioner appealed those portions of the District Court's judgment dismissing its counterclaims. The Court of Appeals unanimously affirmed without discussion of the substance of petitioner's arguments.

STATEMENT OF RESPONDENT'S POSITION

As indicated in the petition for a writ of certiorari that respondent has filed contemporaneously with this memorandum, respondent does not oppose the Court's consideration of the issues petitioner seeks to raise, provided the Court also grants Dunlop's petition and, thus, brings up the entire case for review. However, Dunlop believes that petitioner has inaccurately stated the questions it can properly present to this Court for review. Respondent respectfully suggests that the questions petitioner can present are as stated in the "Questions Presented" portion of this memorandum.

Respondent does not oppose granting the petition submitted by petitioner because:

1. The Court Should Review the Entire Case in Order To Obtain an Accurate Picture of the Context in Which Petitioner's Arguments Arise.

This Court decides "cases and controversies." It does not decide abstract questions of law. When claims are made of restraint of trade or monopolization, one must ask: "Restraint of what trade?" "Monopolization of what?"[1] When a case is presented to the lower courts—as this one was—as "an effort to force the entire automobile industry in the United States to its knees," the Court should have before it the entire available record concerning the inventions Dunlop claimed in its patents and the bases upon which those otherwise world-recognized discoveries were invalidated. Without the entire record of the patent case before it, the Court will be unable adequately to determine whether Dunlop did, indeed, attempt to restrain U.S. commerce or to create a monopoly outside the lawful one established by the four corners of its presumptively valid patents.

2. There Is a Need for Guidance from This Court on the Extra-Territorial Reach of the Misuse Defense and Affirmative Liabilities Under the Sherman Act.

The growth of international trade and investment is a matter of common knowledge. No less well known are the efforts of the United States Government to attract foreign investment to this country and to encourage the free flow of international commerce in both tangible and intangible commodities. Nevertheless, this Court has only occasionally in the recent past considered certain aspects of international patent

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[1] *Acme Precision Prods.* v. *American Alloys Corp.*, 484 F.2d 1238, 1240 (8th Cir. 1973), quoting from *Diamond International Corp.* v. *Walterhoefer*, 289 F. Supp. 550, 576-77 (D. Md. 1968). See also *Azoplate Corp.* v. *Silversmith, Inc.*, BNA, PTCJ No. 154, A-1, 3 (D. Del. 1973).

licensing practices.[2] As the Director of Policy Planning for the Antitrust Division has stated:

> "[Some] older cases have generally condemned international cartel practices based on broad technology transfers with patent licensing and territorial restrictions.[3] However, . . . it may be somewhat difficult for companies to know the proper legal rules in this increasingly important area of commercial practice. *It would be a useful thing if the Supreme Court were to have the opportunity to rule upon an appropriate case involving long-standng territorial technology transfer arrangements based on patents and know-how.*" Donnem, "The Antitrust Attack on Restrictive Patent License Provisions," CCH, Trade Reg. Rep. ¶50,111, at 55,157-58 (1969) (emphasis supplied.)

Certainly the public statements of spokesmen for the Antitrust Division suggest that the rule of reason ought to apply to international license agreements under know-how and patents.[4] While it is true that

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[2] *Zenith Radio Corp.* v. *Hazeltine Research, Inc.*, 395 U.S. 100 (1969) (foreign patent pool demanding package license adversely affecting U.S. exports); *United States* v. *Singer Mfg. Co.*, 374 U.S. 174 (1963) (agreements to prevent imports from Japan).

[3] These older cases, such as *United States* v. *National Lead Co.*, 332 U.S. 319 (1947) or *Timken Roller Bearing Co.* v. *United States*, 341 U.S. 593 (1951), invoked by petitioner are, of course, wholly inapposite to the facts of this case.

[4] See, e.g., Deputy Assistant Attorney General Comegys in CCH, Trade Reg. Rep. ¶ 50,129, at 55,208 (1972); Justice Department Memorandum at CCH, Trade Reg. Rep. ¶ 50,129 at 55,209 [Case 2], 55,210 (1972); Fugate, "U.S. Antitrust Laws and Multinational Enterprises," CCH, Trade Reg. Rep. ¶ 50,152 at 55,258 (1973); Clearwaters, Letter to the State Department Bureau of International Scientific and Technological Affairs, BNA, PTCJ No. 149, A17-18 (1973). The Justice Department's efforts have, however, been a source of additional confusion to the practicing bar. See, e.g., Stedman in "Panel Discussion: Patents, Technology and Antitrust Enforcement," 42 Antitrust L.J. 78, 96-97 (1973).

respondent's agreements contained prohibitions on exports from the countries in which the foreign licensees received local manufacturing licenses, respondent believed such provisions were consistent with its rights under the local law of such foreign countries and not in violation of U.S. law. The agreements were for limited terms, such as the ten years of the Sumitomo license cited by petitioner. (Pet. App. D, p. 4). The restraints on exports dealt solely with products covered either by the local patents licensed or the know-how disclosed to the licensee by Dunlop. Any intimations that the export restraints were broadly based non-competition clauses are simply false.[5] To the extent they included a prohibition on the export of products to the United States, respondent then owned or was applying for what it thought were valid U.S. patents that could have been asserted to prevent the importation of such products. And such restraints were clearly ancillary to the principal purpose of the contracts, namely, to license patents and otherwise unavailable know-how.[6] In any event, petitioner did not even offer to prove, much less establish by any evidence, that brakes produced by Dunlop's foreign licensees would have been sold in this country absent such contractual restraints or that if anyone attempted such sales, Dunlop or a licensee took any steps to prevent them.

The extent to which infringers may routinely make reckless charges of monopolization and restraint of

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[5] Cf. *Krampe* v. *Ideal Industries, Inc.*, 347 F. Supp. 1384 (N.D. Ill. 1972).

[6] The law seems settled that agreements solely under foreign patents cannot constitute a misuse of U.S. patents, *Carter-Wallace, Inc.* v. *United States*, 449 F.2d 1374, 1383-84 (Ct. Cl. 1971).

trade and raise the bogey man of antitrust to ward off foreign investment in this country deserves the attention of this Court. The paucity of the record supporting petitioner's free-swinging charges does not make this case an inappropriate one for the Court's review. On the contrary, it would serve well to enable the Court to indicate the types of evidentiary showing that must be made if antitrust charges are to be seriously entertained and meaningfully applied.

Respondent feels it is unnecessary to comment on the contentious and unfounded statements made by petitioner concerning respondent's actions in applying for the patents sued on or in bringing this suit. If the Court were to grant a writ of certiorari and review the entire record, respondent is confident this Court would agree with the courts below that Dunlop did not withhold relevant evidence from the Patent Office; that although its counsel may have expressed some doubts about the validity of the '516 patent, Dunlop could and did in good faith believe its patent to be valid and properly assertable against a company that sought Dunlop's aid and only under pressure from Ford broke its license agreement; and that in all of its dealings with the Patent Office and American industry, Dunlop committed no frauds. What the Court will find is that Dunlop's significant contributions to automobile safety simply ran afoul of the protection the courts of the Sixth Circuit seem to afford the local automobile industry. Dunlop would, therefore, welcome the Court's review of this entire controversy.

CONCLUSION

Respondent does not object to the grant of a writ of certiorari in this case, if the Court will also grant respondent's co-pending petition. It respectfully suggests that the questions presented by respondent are, however, more appropriately framed as stated in this memorandum.

Respectfully submitted,

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